HE FOOD AND AGRICULTURE POLICY DECISION PROCESS CASE STUDY OF THE SET-ASIDE DECISION FOR THE 1978 WHEAT CROP

by

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ABSTRACT

Several major events combined to make 1977 a year of special importance for food and agriculture policy. A new administration seeking to place its imprimatur on policy entered the White House, new omnibus farm and food legislation was enacted, and commodity production controls were reinstituted for the first time since 1973. In the intervening years, the economic and political environment had become vastly different from that prevailing in previous times when the use of such controls had become almost routine. The process by which the executive branch reached the decision to again impose controls on the production of wheat is the subject of this report. It identifies the participants, describes their roles, examines their analytical and informational contributions, and critiques the adequacy of the overall process.

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INTRODUCTION

This report describes the decisionmaking process for food and agriculture. We highlight the process through which a specific policy decision was made by examining actions of the decisionmakers and the issues involved in their decision to reinstitute production controls for the 1978 wheat crop.

Programs intervening directly in the production and marketing of agricultural commodities were first implemented in the thirties. Farming and the agriculture sector has evolved remarkably since then. No less remarkable are changes in the economic environment in which agriculture operates and in the political environment in which public policies for food and agriculture are developed.

The role of the agricultural sector in national economic policy and in foreign policy increased markedly during the seventies. As its role expanded, so did the number of policy considerations. And, correspondingly, this brought more participants to the policy process. Policymaking became more complex, and questions were raised with increasing frequency about the nature and efficiency of the policy decisionmaking process.

Commodity programs spanning the last 50 years have been operated with the general objective of increasing farm incomes by increasing prices. This goal was pursued for many years by directly supporting market prices for farm commodities. The level at which price supports should be set was primarily a political decision. Intense political pressure often resulted in their being set above market-clearing levels; that is, above levels at which the markets would be cleared without accumulation of large stocks. But, over time, the artificially high price supports encouraged farmers to produce ever greater quantities. Production outpaced consumption, resulting in an accumulation of large Government-held surpluses and ever-increasing Federal outlays to support this activity.

Congress eventually recognized that relatively high price supports only exacerbated the farm income problem. Production had to be reduced; imposition of acreage controls (allotments) and marketing quotas for specific crops in excess supply then followed. But, even this solution soon caused economic distortions in commodity production and resource use; legislators sought another method of supply control. Restricting production of specific crops was rejected. The concept of idling

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cropland generally was introduced (the acreage reserve and conservation reserve programs) in the late fifties. This concept was continued through the sixties (cropland diversion) and into the seventies (cropland set-aside). The objective of these programs was to limit the capacity of the agricultural plant rather than production of any specific commodity.

The most flexible of these programs, the cropland set-aside, was first introduced in the Agricultural Act of 1970. It was designed to give farmers maximum freedom to plan cropping patterns once their set-aside requirements had been met. The set-aside concept required that a specified acreage on each farm be withheld from production. No restriction was then placed on use of the remaining acreage; it could be planted to any crop of the farmer's choice. Farmers were not required to maintain the same cropping patterns on their farms year after year. This provision was in contrast to the farmer crop-specific acreage allotments used to control production. However, the Agricultural Act of 1970 retained historical allotments as the basis for determining amounts of set-aside acreage and the subsidy payment to farmers.

Authority for set-asides and acreage allotments was continued in the Agriculture and Consumer Protection Act of 1973, applicable for the 1974-1977 crop years. However, economic conditions in the farm sector made production controls unnecessary, and set-asides were never used.

The Food and Agriculture Act of 1977 retained the set-aside concept. But, a major change in that act eliminated historical allotments on which the set-aside determinations had previously been made. Set-aside acreages and program benefits were, instead, based on the acreage planted to individual crops in each year. 1/

Proposals to control aggregate production--to remove cropland from the production of grains and cotton--are frequently advanced by various groups. Such proposals flow primarily from a concern about low farm income. A decision on controls involves judgments about: the adequacy of existing stock levels, the expected quantity of crop production, future stock levels, commodity prices, farm incomes, food prices, foreign trade, domestic and foreign food aid requirements, risks of shortfall-induced inflation, Federal budget outlays, and the effect on international negotiations in progress. Each of these considerations has economic and political implications, thereby increasing the complexity of agricultural policy decisionmaking.

No cropland had been idled under an annual set-aside program since 1973 when the proposal to idle land for the 1978 wheat crop was advanced. Many people thought it would never be again because, in the atypical years after 1973, farmers were encouraged to plant from fence to fence to meet a greatly expanded foreign market. But production soon

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1/ For example, if a 20-percent set-aside is in effect, a farmer planting 100 acres of wheat complies by idling 20 acres of cropland. Plantings of 200 acres require a 40-acre set-aside, and so on. The larger the acreage planted, the larger the acreage that must be set aside.

again outpaced demand, stocks were rebuilt, and, by 1977, the Carter administration faced the decision on whether production controls were again needed for the 1978 crops to bring supply and demand into closer accord.

This report traces deliberations leading to the August 29, 1977, announcement of a 20-percent set-aside for the 1978 wheat crop. 2/ We focus on the process through which the executive branch reached this decision rather than on the merits of the decision. We examine the economic and legislative environment in which the decision was made, describe the executive branch decision process and identify the participants, explore the role and positions taken by various interest groups, and critique the decisionmaking process.

ECONOMIC CONTEXT

The world food system experienced a series of severe shocks during the early seventies. Fluctuations in domestic and world weather patterns combined with abrupt changes in the policies of the major trading nations to disrupt long stable supply and demand conditions.

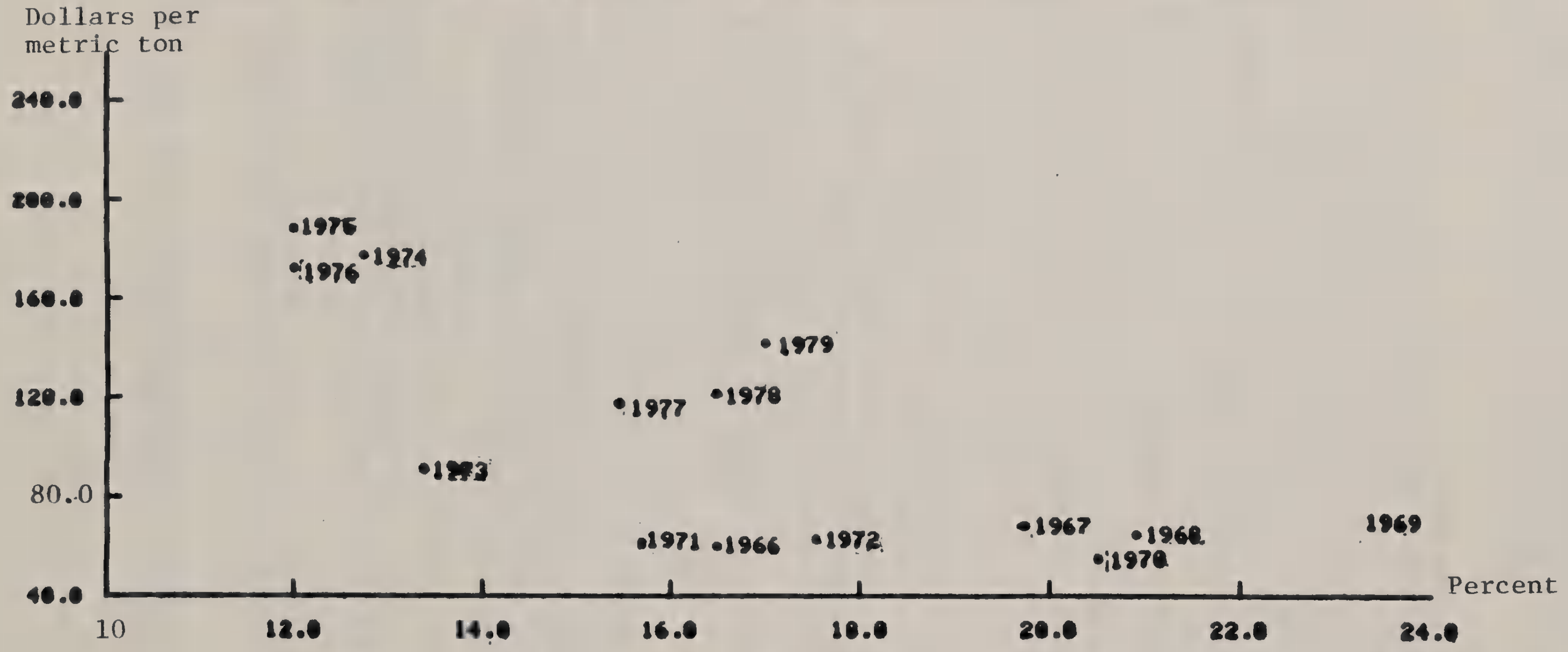
Impact of these shocks was quickly reflected in the quantities of world grain stocks. The carryover of wheat and coarse grains from one year to the next during the late sixties averaged about 20 percent of annual global grain consumption (about 2 1/2 month's supply). But, distribution of those stocks among countries was most uneven. The United States held nearly 40 percent of the world stocks. But the situation had markedly changed by the midseventies. World stocks had declined to 12 percent of annual consumption requirements (less than 1 1/2 month's supply) and the United States held only 22 percent of these stocks.

Total U.S. wheat stocks averaged 22 million metric tons (mmt) in the late sixties and early seventies. They were reduced to half that amount by the midseventies and the Government-owned portion, averaging nearly 7 mmt between 1968/69 and 1972/73, was completely exhausted. A similar reduction occurred in U.S. coarse grain stocks.

The sharp reduction in stocks caused an equally sharp rise in grain prices (fig. 1). The price of a bushel of wheat, for example, rose from an average of $1.76 for the 1971/72 marketing year to $4.09 for 1973/74. Commodity price increases were subsequently reflected in consumer food prices. The dramatic rise in food prices, in turn, severely aggravated domestic price inflation, and, for a time, food shortages threatened.

2/ The crop year or marketing year for wheat is June through May. The winter wheat crop, typically seeded in August and September, is dormant during the winter months, but revives and grows to maturity for harvest in June and July. Spring wheat is typically planted in the spring and harvested in July and August.

FIGURE 1--WHEAT EXPORT PRICES AND RATIO OF ENDING STOCKS TO CONSUMPTION



ENDING STOCKS AS A PERCENTAGE OF CONSUMPTION

NOTE: DATA ARE FOR MARKETING YEAR ENDING IN YEAR SHOWN AND EXCLUDE THE USSR.

This economic situation led to export suspensions and embargoes on certain grains and oilseeds. 3/

After the turbulent period 1972-74, weather was again favorable, and 1975 and 1976 harvests were large. Stocks were slowly rebuilt and prices returned to more typical levels. The price of wheat fell to $2.31 per bushel by 1977.

Farm income, agricultural exports, and agriculture's positive contribution to the Nation's net trade balance surged between the early and midseventies. Net income of farm operators, averaging $13 billion in the late sixties and early seventies, peaked at $33 billion in 1973. The U.S. share of world wheat and coarse grain exports increased substantially, and the net agricultural trade balance (exports less imports) increased from $2 billion to $12 billion.

Wheat stocks at the beginning of the 1977/78 crop year reached their highest level in more than a decade even though U.S. wheat and coarse grain exports remained at high levels. Coarse grain stocks were also rebuilt to near the approximate levels of the early seventies. U.S. wheat stocks accounted for nearly one-third of world stocks, approaching the proportion held during the late sixties and early seventies. Although U.S. stocks had been rebuilt to near earlier levels, world coarse grain stocks as a percentage of consumption remained below the level of the late sixties and early seventies. The proportion of feed grain stocks held by the United States remained below the level before the 1974/75 marketing year. Wheat stocks, however, were at a higher level--both in absolute size and as a percentage of consumption--than at any time since the 1970/71 marketing year.

The rebuilding of U.S. stocks kept prices relatively favorable to farmers until the large 1976/77 crop seemed assured. It was the second consecutive crop in excess of 2 billion bushels (57.8 mmt). Domestic wheat stocks totaled 30 mmt at the end of the 1976/77 marketing year (May 1977). World wheat stocks had increased to 95 mmt, 24 percent of annual world consumption. Thus, domestic stocks accounted for nearly a third of the world total. Meanwhile, world coarse grain stocks had been rebuilt to 11 percent of consumption, with the United States holding 40 percent of those stocks.

USDA forecast on July 12, 1977, that the domestic wheat crop would exceed 55 mmt, only 5 percent less than the previous year's record. Based on expected domestic and export use, this production forecast implied that stocks at the end of the marketing year (May 1978) could be as large as 40.2 mmt. A mid-July forecast indicated world wheat production would be 406 mmt, the largest total supply (production plus existing stocks) ever available for a single year.

3/ Phil Paarlberg, "Causes and Consequences of Restrictions on United States Agricultural Exports, 1973 to 1975," IED Staff Report, Econ. Stat. Coop. Serv., U.S. Dept. Agr., Feb. 1980.

The price of wheat, reflecting this abundance, fell to $2.03 by June 1977, the lowest since February 1973 (fig. 2). Farmers' production costs did not decline commensurately. These costs had continued to increase, reflecting general inflationary pressures in the economy and placing many producers in the classical cost-price squeeze. Producers most severely affected were those most highly leveraged financially, those who had incurred large land and machinery debts in the seventies. Declining commodity prices reduced producer's annual cash flow, making debt service difficult or, in some cases, impossible.

Wheat and other grain producers became increasingly vocal in their dissatisfaction with the income situation during the spring and summer of 1977 (fig. 3). The wheat lobby obtained increased income supports in the 1977 farm bill signed into law in late September. During the winter months of 1977-78, producer unrest intensified into a mass protest movement and spawned a new farm organization, the American Agriculture Movement (AAM).

LEGISLATIVE BACKGROUND

The Agriculture and Consumer Protection Act of 1973 expired with the crop harvested in 1977. 4/ The 1977 wheat harvest was completed in the summer. Planting of the 1978 winter wheat crop (about two-thirds of all U.S. wheat) would begin in September 1977, requiring that farmers make production plans and begin soil preparation before that time. Congress, therefore, needed to complete a replacement farm bill authorizing a new wheat program well before September to influence plantings. Failure to enact authorizing legislation and make wheat program provisions known to farmers before winter wheat was seeded would impose a hardship on some producers and, of course, reduce program effectiveness, since many producers would not be inclined to participate after that time.

The 95th Congress and the new Carter administration immediately began to prepare a new farm bill to replace the expiring 1973 Act. Proceeding slowly through the arduous legislative process, the Senate and House versions of a new bill did not reach the conference committee until the first of August. 5/ The conference concluded on August 5, just before the month-long summer congressional recess. However, conferees chose not to formally adopt the report, precluding further consideration until Congress reconvened on September 8. When Congress returned, the Senate quickly adopted the conference report on September 9, but the House did not act until September 16. The enrolled bill was sent to the White House a few days later and signed into law by President Carter on September 29. Failure of the Congress to complete action before recess

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4/ For a discussion of issues surrounding development of the 1977 Act, see Agricultural-Food Policy Review, AFPR-1, Economic Research Service, U.S. Dept. Agr., Jan. 1977.

5/ The process of developing the new legislation is described in Agricultural-Food Policy Review, AFPR-3, Econ. Stat. Coop. Serv., U.S. Dept. Agr., Feb. 1980.

FIGURE 2--SEASON AND MONTHLY AVERAGE WHEAT PRICES, 1970 - 77

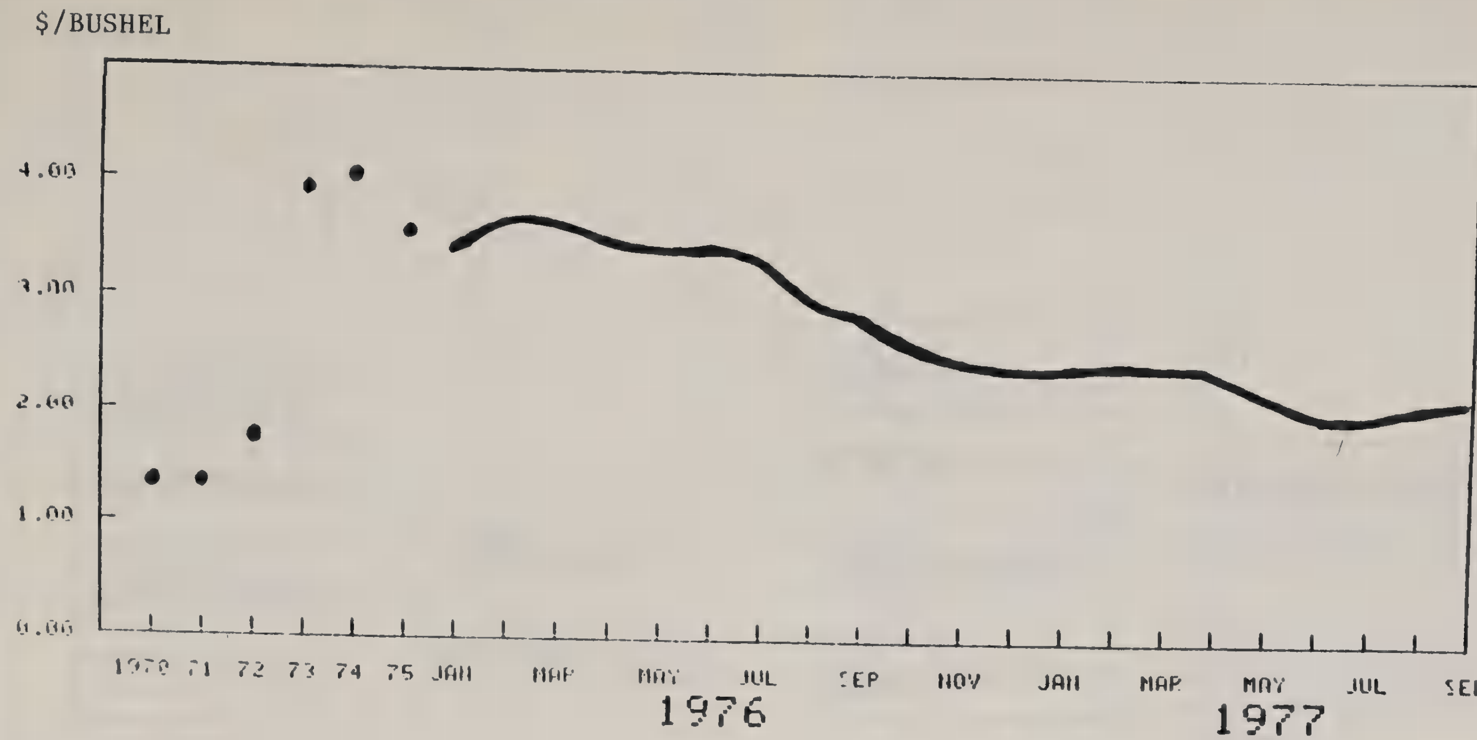

FIGURE 3---CHNONOLOGY OF ECONOMIC AND POLITICAL EVENTS AFFECTING UNITED STATES AGRICULTURE, 1972-1977

1972

AGRICULTURAL NET TRADE BALANCE TOTALS $7.24 BILLION -- $2.3 BILLION IN 1971

WORLD WHEATS STOCKS TOTAL 79.1 MMT, 21.9% OF ANNUAL USE

U.S. WHEAT STOCKS TOTAL 26.0 MMT, 33.9% OF WORLD STOCKS

FIRST MAJOR USSR GRAIN PURCHASE -- IMPORTS TOTALS 21.0 MMT

U.S. CROPLAND SET-ASIDE TOTALS 62 MILLION ACRES

WHEAT SELLS FOR $1.30 PER BUSHELS IN MAY OF 1972; CORN FOR $1.16

1973

PRICE CONTROLS PLACED ON DOMESTIC ECONOMY

FOOD PRICES RISE 16.3 PERCENT; CONSUMER BEEF BOYCOTT

1973 FARM BILL ENACTED, INTRODUCING THE TARGER PRICE/DIRECT PAYMENT CONCEPT

NET FARM INCOME A RECORD $33.3 BILLION--$18.6 BILLION IN 1972

PRODUCTION CONTROLS RELAXED IN JANUARY--TOO LATE TO AFFECT WINTER WHEAT

SHIPMENTS OF SOYBEAN AND RELATED PRODUCTS EMBARGOED

SOYBEAN PRICES REACHED $10/BUSHEL IN JUNE; CORN CLIMBS TO $2.68, MORE THAN $1.50 ABOVE 1972 LEVEL

1974

NO RESTRICTIONS ON U.S. CROPLAND USE

DROUGHT REDUCES U.S. CORN CROP TO 117.6 MMT, LOWEST SINCE THE 1970 CORN BLIGHT

"HOLD" PLACED ON SALES OF CORN AND WHEAT; VOLUNTARY EXPORT AGREEMENT DEVELOPED

WORLD WHEAT STOCKS DECREASE TO 19.1 PERCENT OF USE. U.S. HOLDS 13.4 PERCENT OF WORLD WHEAT STOCKS

WHEAT PRICES REACHED A HIGH OF $6.52 PER BUSHEL IN FEBRUARY; CORN REACHES $3.37 IN AUGUST

1975

LARGE LIQUIDATION OF LIVE-STOCK INVENTORY BEGINS

VOLUNTARY SOVIET EMBARGO CALLED--ENDED WITH THE SIGNING OF THE U.S./USSR GRAINS AGREEMENT

RECORDED LOW USSR HARVEST-- IMPORTS 25.4 MMT OF GRAIN

EMERGENCY FARM ACT OF 1975 VETOED BY PRESIDENT FORD

WORLD STOCKS DROP TO 17.7 PERCENT OF CONSUMPTION; U.S. STOCKS REBUILD TO 18.8 PERCENT OF WORLD

NET FARM INCOME DROPS TO $24.5 BIL.

WHEAT PRICES DROP FROM $4.11 PER BU. IN JAN TO 3.41 IN DEC.

1976

AGRICULTRAL EXPORTS EXPORTS TOTAL $24 BIL, NET TRADE BALANCE IS $12.3 BILLION

WHEAT LOAN RATE IN CREASED FROM $1.50 TO $2.26 A BUSHEL IN OCTOBER

WORLD WHEAT STOCKS TOTAL 99.3 MMT, 26.3% OF ANNUAL USP. U.S. WHEAT STOCKS EQUAL 30.3 MMT, 30.5% OF WORLD USE

NATIONAL ELECTIONS HELD IN NOVEMBER; CARTER WINS PRESIDENCY

WHEAT PRICES CONTINUED TO DROP TO 2.39 IN DEC.

NET FARM INCOME CONTINUES TO DROP TO $18.7 BIL.

1977

55 PERCENT OF U.S. WHEAT CROP EXPORTED, ACCOUNTING FOR 42 PERCENT OF WORLD WHEAT TRADE

WHEAT PRICE DROP TO $2.03 PER BUSHEL IN JUNE THE LOWES IN 55 MONTHS; CORN DROP TO $1.60/BU. THE LOWEST IN 61 MONTHS

NET FARM INCOME TOTALS $19.8 BIL.

U.S. WHEAT STOCKS CONTINUED TO INCREASE AS A PERCENT OF WORLD USE, REACHING 39.3 PERCENT

NET FARM INCOME INCREASES TO $19.8 BIL.

CREATION OF FARMER -OWNED RESERVE ANNOUNCED ON APRIL 4, 1977

1977 ACT ENACTED IN SEPTEMBER AUTHORING SET-ASIDE AND ESTAB-LISHING FORMAL FARMER-OWNED RESERVE

meant there was no legislative authority for a new wheat program at the time the administration had to decide whether to have a set-aside for the 1978 wheat crop.

The administration was aware of the program provisions adopted by the conferees and could fashion a program assuming the bill would be enacted into law. There was a possibility, although remote, of a Presidential veto. Some Presidential advisers were concerned about the potential cost of the bill and opposed the price-support program for sugar which had been included at the last minute over administration opposition.

Had no legislation been enacted, legal authority to operate commodity programs upon expiration of the 1973 Act would have reverted to existing permanent statutes enacted in the late forties. 6/ That legislation did not provide authority for set-asides. Although the bill from the conference committee authorized set-asides, uncertainty still existed about the final form. Absence of legislation thus complicated formation of a wheat program. Therefore, the only alternative open to the administration was to devise a program consistent with what it expected final provisions in the forthcoming bill to be and to announce its intention, that is, the program it would offer if pending legislation were signed into law. 7/

Anticipating that action might not be concluded on a new bill by August 15 or that the bill might be vetoed, Congress had earlier deferred the permanent law's provisions. A bill to defer the producer referendum until October 14, or 30 days after the adjournment of Congress, whichever

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6/ If a new law had not been passed to replace the 1973 Act, permanent legislation would become effective. One provision of this law requires the Secretary of Agriculture to declare the price-support level and marketing quotas for the following year. Producers then accept or reject these provisions by referendum. The law requires the Secretary to proclaim the marketing quotas by April 15 and the referendum to be held before August 15. (Details of the provisions of the permanent law appear in: J.B. Penn and W. H. Brown, "Impacts of Reverting to Basic Legislation when the Agriculture and Consumer Protection Act of 1973 and Rice Production Act of 1975 Expire, Agricultural-Food Policy Review, AFPR-1, Econ. Res. Serv., U.S. Dept. Agr., Jan. 1977.

7/ Modification of the 1978 wheat program actually continued until May 15, 1978, only a month before harvest. In the late fall of 1977, the AAM protest actions began. Protestations about commodity prices, farm income, and cash flow problems, taking the form of proposals for the mandatory control of production through quotas and bills that supported all or some of the AAM's proposals, were introduced in the Congress. Congressional support reached its zenith when the Senate passed H.R. 6782, the Emergency Agricultural Act of 1978. This bill provided for graduated income support prices for setting aside various percentages of cropland. The House defeated the bill after conference action. Then, a much less ambitious act, authorizing the Secretary to change income support rates (target prices) whenever a set-aside is in effect, was enacted and later signed into law.

should occur earlier, was introduced first in the Senate and then in the House. The Senate quickly passed the bill and the House followed on June6. The bill (S. 1240) was signed into law (P.L. 95-48) by President Carter on June 23, 1977.

EXECUTIVE BRANCH DECISIONMAKING PROCESS

The Carter administration had moved quickly upon taking office to institute its own policy decisionmaking process. The Economic Policy Group (EPG), similar to the Ford administration's Economic Policy Board, was key to this process. Initially cochaired by Secretary of the Treasury Michael W. Blumenthal and Council of Economic Advisers Chairman Charles L. Schultze, EPG also included: Bert Lance (Director of the Office of Management and Budget), Ray Marshall (Secretary of Labor), Juanita Kreps (Secretary of Commerce), Patricia Harris (Secretary of Housing and Urban Development), Richard Cooper (Under Secretary of State for Economic Affairs), and any other Cabinet officer having a policy issue under consideration by the coordinating body. EPG was to be served by a secretariat; a staff director was named and a small staff assembled to provide administrative and analytical capability. Issues involving several agencies or of major importance were to be brought before EPG and, insofar as possible, decided there. Those on which agreement could not be reached would be taken to the President for final resolution with EPG acting as the broker; that is, it would oversee analysis and development of recommendations.

The process proved unworkable almost from the start. Lack of an explicitly defined scope of responsibility was a major factor. 8/ Although minor issues were clearly not expected to be brought before the group, some major issues (such as development of the energy program) were not brought before EPG. Uncertainty existed in the early months as to just how far Carter's commitment to the cabinet government concept extended. It was unclear how much leeway was actually to be given cabinet officers in making decisions within the purview of their departments but also having overall economic policy consequences.

Just as the small EPG staff was forming a quarterly agenda to identify issues to be taken up by the EPG and as it was moving to strengthen the process in other ways, the first of the President's reorganization proposals was announced on July 15, 1977: for the Executive Office of the President (EOP). Emphasis of that first proposal was a reduction in the size of the EOP staff, and EPG was effectively eliminated. The EPG staff was disbanded and, although EPG was not abolished, its role and that of the entire policy process became more uncertain.

In the first 5 months of the new administration, the time in which the administration's farm bill proposal developed, EPG was operational,

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8/ For a critique of the Carter administration's economic policymaking process after 6 months, see Juan Cameron, "Jimmy Carter Gets Mixed Marks in Economics I," Fortune, June 1977, pp. 98-104.

but not smoothly functioning. The farm bill was discussed in EPG only twice, once informally on March 7 and again on March 17 when only major issues were treated. Even though the President's EOP reorganization could not be formally implemented for 60 days after being submitted to the Congress (if no objections arose), EPG and its staff effectively ceased to function almost immediately after announcement of the plan.

Reorganization of EOP also included a Policy Mangement System plan to streamline the policymaking process on domestic issues. A committee, composed of the seven senior Presidential assistants plus CEA Chairman Schultze and OMB Director Lance and chaired by Vice President Mondale, was to draw up a long-range agenda of emerging domestic and foreign issues requiring Presidential involvement.

The committee would then decide which departments and agencies should be called upon for staff work and recommendations. When necessary, a lead agency would be selected to provide basic data and staff papers including contributions from other agencies. Establishment of this interagency working relationship extended to domestic policymaking. This was essentially the same process long followed in formulating foreign policy.

This process put Domestic Policy Staff (DPS) Director Eizenstat on a par with his foreign policy counterpart National Security Council (NSC) Chairman Brzezinski ("... twin process managers for domestic and foreign policy"). 9/ On domestic policy issues where several agencies were involved, DPS would broker the issues. DPS would seek out expertise in the departments and agencies providing background information and analyses, would garner recommendations, and then prepare the Presidential decision memoranda, impartially incorporating each agency's position. A major function of DPS also was to assess domestic political considerations and political implications associated with each option presented to the President. Various DPS members were assigned responsibility for specific areas, generally corresponding to responsibilities of the departments. The mode of operation varied from department to department, depending upon individual capabilities and personalities. One DPS position, the Associate Director for Agricultural and Rural Development, had responsibility for food and agriculture. In the policy decisionmaking process, this individual served principally as broker for issues which required Presidential involvement and, thus, had the last word in debates before a final decision was rendered by the President.

9/ Jack W. Germond and Jules Witcover, The Washington Star, July 20, 1977, p. A-3.

No formal structure existed for interagency deliberations at the time the set-aside decision was under consideration. 10/ DPS was responsible for convening relevant groups and bringing the issue to the attention of the President in the most effective fashion. A DPS staff person worked closely with USDA officials, especially the Director of Economics, Policy Analysis, and Budget, on the formulation of the wheat program.

A Food and Agricultural Policy Working Group was subsequently formed by President Carter on September 29, coincidentally the same day on which he signed the farm bill. (This interagency group, composed of various agencies involved in food and agricultural policy determination, was similar to the Food Deputies Group of the Ford administration.) However, the group did not begin to function until late October and therefore, did not participate during development of the administration's farm bill proposal, the congressional debate on the farm bill, or the wheat set-aside decision.

ELEMENTS OF THE DECISION

Participants in the decisionmaking process addressed the following elements in the set-aside decision:

- Production level. This element focused on the level of wheat production during the 1977 crop year as well as in earlier years of the seventies, especially the variability of production due to weather. Participants considered expected production levels for the 1978 crop year under varying weather conditions.

- Grain stocks. Participants considered historic levels of grain stocks both in absolute terms and relative to annual consumption. The fair share proportion of world stocks to be held by the United States was also at issue.

- Commodity prices and farm income. Participants considered both current and expected food grain and feed grain prices and farm income.

10/ Previous administrations have used a variety of organizational structures, both formal and informal, for handling food and agricultural policy issues. At the time it left office, the Ford administration had an Agricultural Policy Committee consisting of the Secretary of Agriculture, the Secretaries of State, Treasury, and Commerce, the Special Representative for Trade Negotiations, the CEA Chairman, the OMB Director, the Assistant to the President for Domestic Affairs, the Assistant to the President for Economic Affairs, the Assistant to the President for National Security Affairs, the Special Assistant to the President for Consumer Affairs, and the Acting Executive Director of the Council on International Economic Policy. This group, reporting to the President, consolidated all agricultural policymaking functions of numerous executive branch committees.

- International trade and negotiations. Participants considered the impact of a unilateral decision by the United States to restrain production on the level of wheat and feed grain exports. The U.S. Government was involved in negotiation of an international grains agreement at this time.

  Focus of the new agreement was to stabilize world market prices through an international grain reserve and production and consumption adjustments. Thus, a proposed U.S. set-aside would offset the U.S. negotiating position.

- Inflation risks and food security. Inflation risks were assessed through the probability of a large runup in commodity and consumer food prices; participants considered stock levels and the probability of production shortfalls in the United States and elsewhere. The U.S. ability to meet food commitments to both domestic and foreign consumers under various production shortfalls was questioned.

- Program costs (budget outlays). Participants were especially concerned with the impact of production adjustment programs on the level of price- and income-support payments to which the Federal budget would be exposed.

RESOLUTION OF THE ISSUE

This section identifies major participants in the decisionmaking process, their issues, and arguments, and traces the chronology of events leading to announcement of the program decision on August 29, 1977.

Overview

The wheat set-aside decision involved the Departments of Agriculture (USDA), Treasury and State, OMB, the Office of the Special Trade Representative (STR), AID, CEA, and DPS. The process generally entailed numerous meetings for gathering and assessing information, defining issues, and initiating and evaluating analyses.

First, staff analysts prepared descriptive materials for consideration by successively higher ranking policy officials (Presidential appointees). 11/ Then, staff participants set forth analytical assumptions, a range of options to be considered, specific analyses to be prepared, and issues that had to be resolved in the decisionmaking process.

11/ A distinction is made between policy and staff level participants. The former are Presidential appointees and the decisionmakers. Staff are either political appointees or career civil servants who prepare material on which decisions are based and advise policy officials.

Policy officials (principals) entered the process only after their assistants had narrowed the focus, debated and delineated the issues, and identified material pertinent to the decision. These officials then further debated the issues and further narrowed options--to two or three--before turning to the President for a decision when they could not reach agreement. 12/

Figure 4 illustrates events associated with the set-aside decision. The process began with the USDA staff specifying options and initiating analyses in July 1977. Preliminary results and background material relevant to the set-aside situation were presented in a paper for policy assistants and the Secretary of Agriculture on August 5. This set of economic analyses by USDA analysts was the first offered for consideration in this decision.

The USDA paper discussed possible impacts of set-aside options ranging from no cropland set-aside to a set-aside of 30 percent for wheat and 15 percent for feedgrains. The effect of a set-aside decision on the international wheat negotiations was also discussed.

The first interagency meeting to consider the wheat set-aside issue was held on August 16, 1977. This meeting was attended by OMB, CEA, DPS, and USDA staff representatives. The group reviewed the domestic and world grain situation, risks of supply-induced inflation, its relation to ongoing international negotiations, and relevant options. USDA's Director of Economics, Policy Analysis, and Budget presented material prepared by USDA's staff.

USDA was not ready at this time, however, to recommend a specific option. Purpose of the meeting was to provide participants with information--the basic data, feasible program options, and related details--so they could begin their own assessment.

CEA had already initiated its own analysis of the grain situation. Its study first evaluated the global food situation (a supply and demand balance for grains) and then assessed the risk of a supply shortfall (both with and without set-asides) that might exacerbate the domestic inflation problem. On August 16, CEA Chairman Schultze sent a memorandum containing tentative results of this analysis to Secretaries Bergland and Blumenthal, OMB Director Lance, and DPS Director Eizenstat. Based on this analysis, CEA suggested that world grain stocks were inadequate to handle potential production problems.

The CEA study suggested that, even at higher program costs, the United States must be cautious in implementing a grain production control program. This evaluation led to extensive discussion of the appropriate level of U.S. stocks both in an absolute sense and relative to

12/ If all advisers are in agreement, then the President's concurrence is requested. This is usually a formality, done primarily to keep him informed.

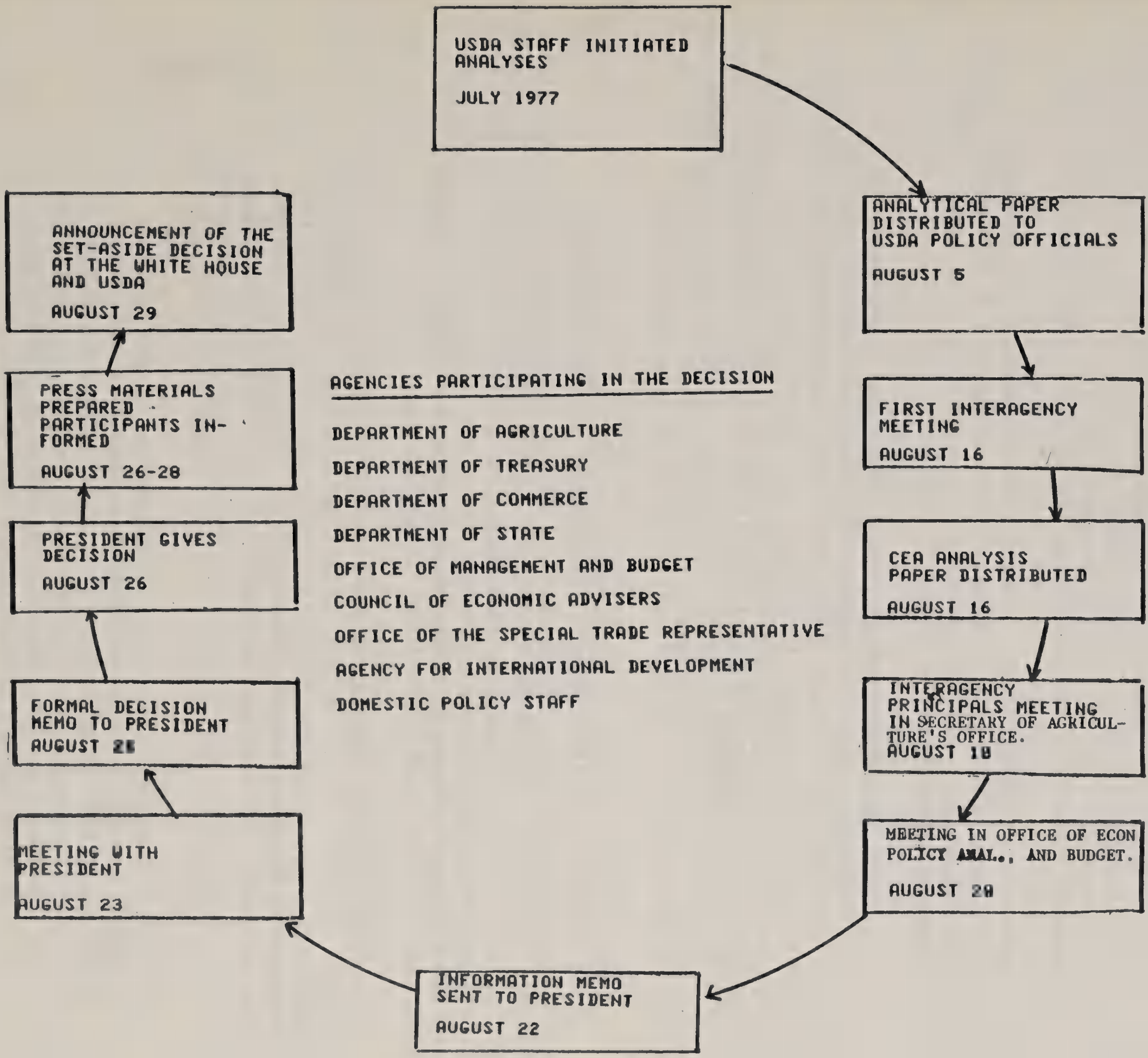

FIGURE 4 -- CHRONOLOGY OF EVENTS LEADING TO THE WHEAT SET-ASIDE DECISION.

consumption, as well as reasons for the recent stock accumulation and the probability level associated with a future production shortfall from whatever source.

Secretary Bergland called a meeting for August 18, 1977, to discuss the CEA analysis. Policy officials attending were the Secretary of Agriculture, Deputy Secretary of Agriculture, Director of Economics, Policy Analysis, and Budget, Assistant Secretary of Agriculture for International Affairs and Commodity Programs, Administrator of The Agricultural Stabilization and Conservation Service (ASCS), Chairman and Senior Staff Economist of CEA, Under Secretary of State, Under Secretary of the Treasury, Assistant OMB Director, and Associate DPS Director.

The session focused on risks of inflation inherent in a set-aside decision. Policy officials also discussed the impact of a set-aside decision on international negotiations and how this would be perceived by the international community.

A major point of disagreement was how likely was a set-aside to exacerbate inflation. A higher perceived risk of increasing inflation was associated with a set-aside and a poor crop (a combination of reduced acreage and low yields that would reduce total supply, including carryover stocks, to a level resulting in sharply higher grain prices). USDA and CEA disagreed on the magnitude of the risk; the differences largely derived from methodological techniques analysts used in assessing the probability of volatile prices. CEA saw a higher risk than did USDA of unacceptably low stock levels coincident with poor weather and set-aside.

A second point of disagreement between CEA and USDA was the appropriate level of stocks to maintain. USDA, viewing stocks both in absolute terms and relative to historical levels, argued that stock levels were more than adequate. CEA took the position that stocks, when viewed as a percentage of world consumption, were not adequate, noting that rebuilding of stocks in recent years was not a result of above trend production but rather of below trend consumption.

The international aspects of the decision raised at this meeting included: (1) the impact of U.S. unilateral production control on incentives of other exporting and importing nations to negotiate a new International Wheat Agreement (IWA), 13/ (2) the impact a set-aside might have as a signal to importing nations that the United States would not be the granary for the world, and (3) the possibility that a set-aside could

13/ At the time the set-aside decision was being considered, the United States was actively involved in negotiating a new IWA to replace the existing agreement expiring in June 1978. Ten days before the set-aside decision was announced, the major wheat exporters (Australia, Argentina, and Canada) met in Washington, D.C., to examine the possibility of reaching a common position for the IWA. The U.S. position centered on reserves and member countries making production and consumption adjustments in times of supply-demand imbalance.

be viewed as an export subsidy and would thus be contrary to the stated U.S. policy position of advocating reduced trade barriers. A major issue was the equitable, or fair, share of world stocks that the United States should hold.

Secretary Bergland indicated at this meeting that he would recommend to the President a 25-percent set-aside for wheat and, tentatively, a 10-percent set-aside for feed grains. CEA and Treasury officials indicated they believed this set-aside was too large and that it required assuming too large a risk.

Differing views were not resolved at this meeting. Staff assistants were directed to meet again to account for differences in estimates of a crop shortfall and consequent price changes. That meeting in the office of USDA's Director of Economics, Policy Analysis, and Budget was held on August 20. Those attending with the Director and USDA staff analysts were analysts from CEA, OMB, Treasury, and DPS. Other issues were also unresolved. But, the primary point of discussion was to assess what would happen to prices if a set-aside were imposed in a year in which crops subsequently turned out poorly. The participants again failed to agree, which meant the issue would have to be taken to the President. It was agreed that USDA would draft an information memorandum for the President and that DPS would prepare a cover memorandum summarizing views of the other agencies. Their staffs then prepared these memoranda during the remainder of the weekend. They were transmitted to the President on August 22.

Because the views were widely divergent and the issues complex, a meeting of the principals was scheduled with the President on Tuesday, August 23. Participants in the Cabinet Room meeting included: The President, Vice President, Secretary and Deputy Secretary of Agriculture, USDA's Director of Economics, Policy Analysis, and Budget, Assistant Secretary of Agriculture for International Affairs and Commodity Programs, Under Secretary of Treasury, Under Secretary of State, Chairman and Senior Staff Economist of CEA, Director and Assistant Director of OMB, Ambassador for Trade Negotiations, Chief of Congressional Liaison for the White House, Director and Associate Director of DPS, Ambassador Without Portfolio, and a representative from the Agency for International Development (AID).

The discussion focused again on the likelihood that food prices could be abruptly and adversely affected by a large crop shortfall. Secretary Bergland began the meeting with a brief overview of the economic situation in the farm sector and his recommendation for set-asides. He asked the Director of Economics, Policy Analysis, and Budget to present the rationale for and details of USDA's position. The President then asked CEA Chairman Schultze to present his views and to make the case for the others opposing the large set-aside. Other participants then raised additional issues for consideration, including the impact on international negotiations, farm income, and the Federal budget. State Department officials discussed the possible impacts of the decision on world opinion. After more than 1-1/2 hours of discussion, the President concluded the meeting by instructing DPS Director Eizenstat and his staff

to prepare a formal decision memorandum. This document would summarize issues, positions (recommendations) of the participants, and the now narrowed choices from which the President could choose. This formal decision memorandum was drafted by DPS, informally reviewed by USDA and CEA, and transmitted to the President late in the day on August 25.

The President reviewed the memorandum overnight and rendered his decision on August 26, 1977. Following the usual procedure, DPS received the decision and was left to inform the parties of the decision and see to its execution.

The President had decided on: (1) placement of 30-35 million tons of food and feed grains in a grain reserve prior to the beginning of the 1978/79 marketing year (June 30, 1978), (2) the intention to implement a 20-percent set-aside for wheat, contingent upon the legal authorization becoming available through final passage of the Food and Agriculture Act of 1977, (3) an increase in the loan rates for 1977 crop feed grains, and (4) an indication that a 10-percent set-aside was tentatively planned for feed grains. The President further indicated that the reserve element was to be stressed in the announcement and that he personally wanted to approve the text.

DPS, in collaboration with USDA officials, decided to make the announcement at the White House. In addition to the White House press, the regular agricultural press was cleared into the White House for this announcement. A detailed press briefing was scheduled at USDA following the White House announcement.

Participants and Their Issues

This section examines the process from the perspective of the primary participants and discusses their major concerns and their viewpoints on the set-aside. It also considers departments and agencies that had responsibility for developing the analyses and issue papers, and for reviewing the analyses.

Department of Agriculture

Major USDA participants were the Secretary of Agriculture, the Deputy Secretary, the Director of Economics, Policy Analysis, and Budget, and the Assistant Secretary for International Affairs and Commodity Programs. As the agency responsible for operating the commodity programs, USDA initiated the decisionmaking process and prepared most of the analyses.

USDA had to consider a wide spectrum of interests. It had to strike a balance among farm income considerations, international interests, budget outlays, and food price inflation risks. The major USDA concern was a traditional one, that is, wheat farmers were experiencing a cost-price squeeze and their financial situation needed to be improved. USDA also agreed with the other agencies that forming a grain reserve

that would serve as a buffer against poor weather should be a precursor to a set-aside. 14/

The administration was involved in IWA negotiations in London while the set-aside decision was being considered. Only days before the set-aside decision was reached, USDA called for a special meeting of principal wheat exporters--Canada, Argentina, and Australia-- to assess the extent of any agreement. The United States wanted to ensure that it would be a reliable supplier by maintaining adequate stocks. But, it also wanted it known that it would not accumulate stocks to the extent that other countries would be relieved of their burden of holding reserves. Furthermore, USDA officials wanted to learn from other exporters the extent to which they were willing to make necessary production adjustments in times of surplus.

Development of USDA's analysis of the supply-use situation was guided largely by the Director of Economics, Policy Analysis, and Budget and to a lesser extent by the Assistant Secretary for International Affairs and Commodity Programs. USDA analysts were instructed to prepare a supply-use forecast, assuming no set-aside as the base from which to compare the policy options. They were also instructed to consider: (1) the world grain situation, including projections of production, trade, and carryover for wheat, coarse grain, and total grain; (2) possible impacts of set-aside and reserve decisions on international grain negotiations; and (3) alternative weather conditions that might prevail. Alternative weather scenarios were used to evaluate food supply and price risks inherent in a production control decision.

Ongoing deliberations on legislation to replace the expiring 1973 Act would partly determine the policy instruments available. These instruments included: the target price and loan rate for wheat and other grains; the acreage base to be used in determining the amount of set-aside and Government payments; specific regulations for summer-fallow land, haying, and grazing; Commodity Credit Corporation (CCC) resale policy for owned inventories; and operating details for the reserve programs. Of the two bills that would be considered by the conference committee, the House bill's (H.R. 7171) provisions were analyzed; they were considered most likely to be adopted by the conferees. In addition, the farmer-owned reserve program initiated by USDA in April 1977 was assumed to be continued.

14/ USDA had established a food grain (wheat and rice) reserve on April 4, 1977, using existing statutory authorities. This was the first time a formal reserve (as opposed to surplus stocks) with explicit operating rules had been established.

Initial Analysis. Three staff papers prepared for the Assistant Secretary for International Affairs and Commodity Programs, the Director of Economics, Policy Analysis, and Budget, and the ASCS Administrator by the analysis staff were presented on July 25, 1977. These were: (1) analysis of combinations of weather conditions and set-aside levels, (2) assessment of the impact of the U.S. set-aside decision on international negotiations, and (3) analysis of results of alternative set-aside options for 1978/79. These were the initial studies; additional analyses would be necessary to reflect subsequent amendments adopted during House consideration of H.R. 7171 and changes made in the conference committee.

Revised analyses were completed on August 5. These incorporated revised policy instruments, including a 1978 target price of $3.00 for wheat and $2.10 per bushel for corn; current plantings (instead of historical allotments) as the basis for program payments and determining set-aside amounts; a minimum resale price for CCC-owned grain of 150 percent of the loan rate; and a reserve/reseal program for wheat and feed grains. Policy options in the revised analysis included no set-aside, a set-aside for wheat only but at two levels (20 and 25 percent), and a combination of wheat and feed grain set-asides (20 percent for wheat and 10 percent for feed grains; 25 percent for wheat and 10 percent for feed grains; 30 percent for wheat and 15 percent for feed grains; and 25 percent for wheat, sorghum, and barley, and 10 percent for corn). In addition to analyzing a most likely outcome for the no set-aside option, analysts took account of alternative weather scenarios by showing ranges in production under a poor and good weather occurrence.

The August 5 analysis suggested that, with no set-aside, wheat stocks at the end of 1978/79 were likely to increase by 350 million bushels to total 1.6 billion bushels. Poor weather would mean 200 million bushels less ending stocks (1.4 billion bushels total), and good weather would result in 1.8 billion bushels total. The analysis also indicated that if the global grain crop in 1979 were poor and there was no set-aside, the U.S. stock level would remain unchanged. The set-aside options would prevent stocks from approaching levels they would reach with no set-aside. A set-aside for wheat only would possibly result in increased feed grain production. The impacts of reduced acreage were also shown to be partially offset by farmers' more intensive use of fertilizers (higher yields) on the acreage planted. Appendix table 4 gives estimates of wheat and feed grain acreage and stocks from this analysis.

The August 5 analysis further showed that gross farm income for 1978 would be lower with a set-aside than with no set-aside. Even though reduced production would increase price, the higher price would not be enough to offset the reduced production and the lower level of direct payments. Potential Treasury outlays were less with a set-aside than without one because the increased price would reduce the market-price/target-price spread. Thus, farm income in the short run would not increase with a set-aside; however, it would improve chances of higher prices in the longer run.

The August 5 analysis increased understanding of the overall grains situation and helped narrow the scope for more specific analyses prepared before the first interagency meeting. The analysis also helped narrow the policy options to be considered by USDA. Additional economic analyses were made before the first interagency meeting on August 16. These analyses refined projections of grain supply and use and incorporated changes in policy variables resulting from the House-Senate conference (Aug. 1-5) on 1977 legislation.

August 16 Interagency Meeting. The first interagency meeting on the issue of a wheat set-aside took place on August 16. USDA focused on issues related to the desired level of U.S. grain stocks, the adequate level of world stocks, the minimum level of price support for major commodities, and alternative levels of set-aside for major crops in 1978/79.

The issue of world and U.S. grain stocks included: (1) a comparison of 1977/78 stock levels with those of recent years and the proportion held by the United States, (2) possible production levels in 1978, (3) the level of world stocks required to ensure security against production shortfalls and to provide price stability, and (4) the proportion of world stocks to be held by the United States.

USDA prepared charts showing world grain production and consumption from the sixties through projections for 1978/79, an index of world food production, and world and U.S. carryover grain stocks. Each chart presented actual and trend information and projections based on assumptions of good and poor world weather scenarios.

August 18 Meeting of Policy Level Officials. USDA prepared discussion materials for the August 18 meeting which focused on the level of world and U.S. stocks, the level of price support for major commodities in 1978/79, and the level of set-aside for major crops. USDA prepared charts depicting actual, trend, and predicted levels of world grain production and consumption, an index of world food production, world grain production, use of grain for feed, world carryover stocks of wheat and coarse grains, world oilmeal production, and U.S. grain carryover.

These materials indicated that a rapid stock buildup had occurred and, with favorable weather and no set-aside, stocks could increase substantially in 1978/79. USDA officials argued that U.S. stocks had been rebuilt in an absolute sense and as a share of world stocks, resulting in a sharp decline in prices. With no set-aside, farm incomes would still be protected as a result of deficiency payment provisions contained in the proposed farm legislation; however, Treasury outlays would be potentially large if prices remained depressed.

Considering these and other factors, USDA recommended a set-aside of 25 percent for wheat and 10 percent for feed grains. A preliminary analysis of the USDA-recommended option was presented including information on production, price, stocks, and estimated Treasury outlays.

After the August 18 meeting, USDA policy level officials asked USDA analysts for additional studies, treating the set-aside decision in a longer timeframe, a reassessment of the world food and agricultural outlook (specifically, levels of consumption), another look at the share of world stocks to be held by the United States, and the level of domestic demand (including the potential for the recovery of feed use).

August 20 Interagency Meeting. A purpose of the August 20 meeting was for staff members of the various agencies to identify and narrow methodological differences that had led to different probability estimates of a production shortfall and, hence, inflation risks (see earlier discussion). They were unable to reach agreement at the meeting.

USDA then prepared an information memorandum for the President that was transmitted on August 22. It contained a comprehensive discussion of several policy issues and gave the Secretary of Agriculture's recommendations on a price-support program for sugar, increased price-support levels for 1977 feed grain crops, grain reserves, the 1978 wheat program, and tentative set-aside recommendations for feed grains, cotton, and rice. 15/ Attachments provided summary information on alternative set-aside situations for wheat and feed grains and an overview of the House-Senate conference version of the farm bill that had been agreed to on August 5, 1977.

The 1978 wheat program portion of the memorandum discussed the need for the announcement in late August and the Secretary's recommendation for a 25-percent set-aside program for 1978 crop wheat and a 10-percent set-aside for 1978 crop feed grains. The memo included supporting materials for the recommendation, including a discussion of stock levels, production, use, and positions of major interest groups including farm groups, wheat exporting countries, the World Food Council, and other Federal agencies.

Preparation and transmittal of the August 22 Presidential memorandum concluded major internal USDA efforts regarding the 1978 wheat set-aside decision.

15/ The decision to reinstitute set-aside was concurrent with decisions by Congress and the administration on legislation to replace the 1973 Act. House and Senate conferees had completed work on a conference bill to resolve House and Senate differences on 1977 food and agricultural legislation. The conference bill retained a House-sponsored measure to establish a sugar price-support program with a minumum support price of 52.5 percent of parity or 13.5 cents per pound. The sugar price support program was an area of major disagreement between the Congress and the administration. Thus, a discussion of congressional action on sugar was included in the memorandum for the President.

Council of Economic Advisers (CEA)

The CEA Chairman, the Council Member for International and Microeconomic Analysis, and the Senior Staff Economist for Food and Agricultural Policy actively participated in developing the 1978 wheat set-aside decision. CEA developed its own analyses and briefing papers for distribution to other agencies.

After analyzing and interpreting the world grain supply and demand balance, assessing the probability of a substantial production shortfall and the likely impacts, and reviewing results of the USDA analyses, CEA advised the President that it would be prudent to forego production controls unless significant preparations against shortfalls were taken. Although CEA acknowledged that world grain stocks had increased absolutely and as a percentage of consumption, it contended that the rise in stock levels was a result of abnormally low consumption rather than above trend production.

CEA's argument against a 1978 set-aside also included the following observations:

- The world stocks to consumption ratio was actually below the 1972 level, the year before the large increase in commodity prices.
- A set-aside in 1978 would actually reduce farm income.
- A large grain set-aside would appear to contradict efforts to deal with world hunger.
- The probability of again having low stock levels was substantially higher than USDA had estimated.

Office of Management and Budget (OMB)

The major OMB participants in the 1978 set-aside decision were the Examiner for the Commodity Credit Corporation; the Chief of the Agricultural Branch; the Director of the Natural Resources Division; and the Associate Director for Natural Resources, Energy, and Science.

OMB participants favored a set-aside as a way to minimize budget outlays. Their position was based on the following perceptions: wheat stocks, although not large by previous standards, promised to become larger; the possibility of a wheat shortage seemed remote; wheat prices were in a downtrend; and sharp increases in program outlays were possible.

Department of the Treasury

Treasury indicated that events such as poor crops and rising farm production costs reemphasized the effect of agricultural policies on the domestic economy. As a result, attention was drawn to the role of the agricultural and food sectors in meeting national economic objectives.

Treasury officials were basically concerned with the following factors in the wheat set-aside decision: food price inflation, budget outlays, stability in the agricultural sector, competitiveness in world markets, and capacity to meet food security objectives.

Treasury officials observed that, although stocks had been rebuilt, they had not yet reached what those officials deemed to be an adequate level. In the event of another crop shortfall, they believed that food price inflation could again become a serious problem. They also considered the budget savings from a 20-percent set-aside versus a no set-aside alternative to be relatively small. Treasury officials were also concerned that a 20-percent wheat set-aside, a poor 1978 wheat crop, and a subsequent poor feed grain harvest would reduce domestic stocks to a very low level. This line of reasoning supported Treasury's opposition to a 1978 wheat set-aside.

The Treasury position on the wheat set-aside was a synthesis of positions and policy concerns originating in the Office of the Assistant Secretary for International Affairs and the Office of Domestic Policy. Background briefing papers were prepared for the Under Secretary and the Secretary for discussions in the Economic Policy Group and for meetings with the President.

Department of State

The following members of the State Department participated in the subcabinet and cabinet level meetings: the Under Secretary for Economic Affairs, the Assistant Secretary for Economic and Business Affairs, the Deputy Assistant Secretary for International Resources and Food Policy, and members from the Office of Food Policy and Programs. The State Department's major concern was the ability of the United States to meet domestic and foreign food commitments. The State Department participants indicated that they generally supported the view that a set-aside was needed.

Office of the Special Trade Representatives (STR)

STR policy officials were also involved in subcabinet- and cabinet-level meetings on the 1978 wheat set-aside decision. The primary interest of these officials was in seeing that two issues were addressed: (1) the potentially adverse impact of set-aside on export supplies to meet the needs of traditional customers and (2) the effect on the international wheat negotiations (then underway). STR officials thought conditions warranted a set-aside; but, if it were too large, it could have adverse effects.

Effect of a set-aside on the international wheat negotiations was difficult to assess. A major U.S. objective in the negotiations was to obtain greater sharing of the adjustments in maintaining an improved supply-demand balance. STR officials thought a set-aside could have a positive impact on the willingness of importers to negotiate and a negative impact on the willingness of exporters to negotiate. How these opposing effects would balance out was difficult to assess because the responses of importers and exporters were uncertain. STR officials thought that reactions of exporters and importers to a set-aside decision might balance one another.

White House Domestic Policy Staff (DPS)

DPS consisted of about 20 staff members who had responsibilities along agency or functional lines. For example, one staff member may have had general responsibility for issues involving USDA, but on specific issues, could also draw upon the expertise of individuals who worked with environmental or natural resource issues or with the welfare aspects of food programs. As DPS was organizationally in the Executive Office of the President, its activities could be distinguished from those of cabinet-level departments and other agencies.

DPS viewed itself as a neutral broker on policy issues where several agencies were involved. USDA's participation in the wheat set-aside decision focused principally on the domestic production sector, price, and farm income; CEA on whether or not the decision meshed with overall macroeconomic policy and inflation; Treasury on budget and inflation; OMB on budget and inflation; State on the impacts of supply control on world opinion and trade negotiations; and STR on the impact on wheat agreement negotiations. Although each agency may have focused more heavily on a particular policy variable such as farm income, stocks, or trade, its primary focus was tempered by its concern for other policy variables. For example, although USDA may have focused on domestic agriculture, it considered other policy variables such as trade, food aid, and inflation. The task of DPS was to consider the views of each agency, attach political weights and other tradeoffs to the arguments, and make this information available to the President.

PRIVATE SECTOR INPUT

Private individuals as well as representatives of special interest groups participated in government discussions of the proposed wheat program.

Public Comment Process

The public was invited to comment on wheat program decisions through an established process required for all program decisions. 16/ The proposed 1978 wheat program was published in The Federal Register, Vol. 42, No. 199, Oct. 14, 1977. Public comments were invited over the following 30 days. This action normally takes place before a final decision is announced; however, because of the legislative delay, it came after USDA's August 29 announcement of an intention to administer a set-aside program.

16/ See U.S. Department of Agriculture, Office of Budget Planning Evaluation, Improving USDA Regulations, Procedures Established in Response to Executive Order 12044, Improving Government Regulations and Secretary's Memorandum No. 1955, Improving USDA Decisions and Regulations, Aug. 25, 1978.

The announcement invited comments on the proposed determination of the national program acreage, the program allocation factor, the set-aside, payments for additional acreage idled (diversion), and the limitation on planted acreage.

Farmers, agribusiness firms, and various farm-related organizations returned 169 responses. Most comments focused on the loan rate and target price levels, even though comment was not requested on these program provisions.

Interest Groups

Input to the decision from groups outside Government, including farmers, consumers, farm and consumer organizations, world hunger lobby, and others, was informal. The Secretary of Agriculture and officials from other agencies made the views of these groups known at the discussions of the set-aside issue.

Agricultural Interests

The Secretary of Agriculture met with representatives of farm and commodity organizations and other interest groups on August 17. The USDA Director of Economics, Policy Analysis, and Budget, the Assistant Secretary of International Affairs and Commodity Programs, the ASCS Administrator, and other USDA officials participated. General farm organizations with representatives attending included Grange, Farmers Union, National Farmers Organization, and Farm Bureau. Commodity groups included National Wheat Growers Association, National Cotton Council, and Midcontinent Farmers Association. The grain trade was represented by the North American Export Grain Association. Other groups were invited but did not attend.

All farm and commodity organizations favored a set-aside. The North American Export Grain Association opposed it. The association opposed unilateral U.S. action to control production and cautioned that implementing set-asides should be coupled with an aggressive export effort. This position reflected the association's concern that unilateral production control would cut the U.S. share of the world's export market.

There was unanimous support for a set-aside among the general farm and commodity organizations, but no agreement was reached on the magnitude of the set-aside. Suggested amounts ranged from 10 to 30 percent, with the National Association of Wheat Growers favoring the higher level. Numerous State wheat grower associations also endorsed the set-aside and, like the national association, favored one larger than 20 percent. The National Wheat Growers Association and the National Farmers Organization considered themselves leaders in the set-aside decision. The National Association of Farmer Cooperatives did not take a position; but its member organization, the National Wheat Growers Association, had taken a strong position.

Farmers, their representatives, and many other groups called, phoned, and met with officials in USDA and other agencies to express their views.

The decision of some farm groups to support a set-aside was likely based on a longer term perspective since gross farm income was likely to be less in 1978 with a set-aside than with no set-aside. These groups considered set-aside as a way to reduce grain stocks accumulations, and therefore raise market prices. Their decision may also have reflected their lack of understanding of the program structure. The target price-deficiency payments program, introduced in the 1973 Act, was still unfamiliar to many producers; it had never been used because market prices had remained above the target prices.

Other Interests

Most other public comments were expressed after the decision was announced. Organized groups offered no strong opposition to the 20-percent set-aside. Several factors contributed to this lack of opposition. A major factor was that the decision was coupled with the fourfold expansion of the farmer-held grain reserve. Religious groups and others concerned with world hunger were most interested in the reserves. They favored helping farmers so long as the set-aside was not so large as to interfere with establishing adequate reserves. The 20-percent, rather than 25- or 30-percent set-aside, also tended to reduce opposition from nonfarm groups. Some groups indicated they would have opposed a larger set-aside. The U.S. Catholic Conference advised President Carter to proceed cautiously on the set-aside, but it did not oppose the 20-percent level. The National Catholic Rural Life Conference did not take a position.

Some farmers were predictably critical of the set-aside program, arguing that real production controls, such as mandatory diversion or marketing quotas--not voluntary set-asides--were needed.

The Consumer Federation of America and the National Consumers League took no position. The AFL-CIO played no role in the decision.

The Interreligious Task Force on U.S. Food Policy wrote in a September 2, 1977, report of the twin decision on food reserves and the 20-percent set-aside. 17/ It called the decision on reserves a major breakthrough and praised it highly. The task force stated that the heart of the set-aside decision was the need to raise prices for U.S. farmers and preserve the agricultural base. However, the task force also recommended that the set-aside program be reviewed in light of changing world agricultural conditions before being extended in subsequent years.

17/ The Interreligious Task Force on U.S. Food Policy is a confederation of national religious agencies working together to help the American religious community influence U.S. policy toward domestic and international food assistance. Twenty-eight Protestant, Roman Catholic, Jewish, and ecumenical agencies and networks cooperate in its works.

Some critics, conceding that sagging farm prices create hardships for farmers, held that a set-aside far larger than 20 percent would be necessary to substantially improve farm income. Still others feared that a U.S. set-aside program could have serious diplomatic repercussions abroad and inflate food prices at home.

Although there was little direct opposition to the set-aside by major groups, editorial writers and individuals did criticize the decision. Martin McLaughlin, Senior Fellow of the Overseas Development Council, in a letter to the editor of the Washington Post (Sept. 12, 1977), stated:

> What is most ironic, but perhaps illuminating about the administration's decision to take up to 20 percent of the nation's wheat acreage out of production next year is its implicit acknowledgement that the international food system, which is supposed (one might think) to get people fed, is simply not doing that job. It was at least a mitigating circumstance that the adminstration's announcement included a pledge to establish grain reserves. This may help soften the discouraging blow that the set-aside program constitutes to the effort to get hungry people of the world fed. But it would have been much more meaningful if the United States had exercised greater leadership during the past three years to create that international grain reserve.

A New York Times editorial (Aug. 1, 1977), "Betting Against Famine," stated that Carter's decision was a victory for USDA and wheat farmers and a "...bet against world hunger next year." The editorial called it "a lucky bet and a regrettable decision" and described the proposed grain reserve of perhaps 35 million tons as "...a formal name for surplus stocks that would exist anyway." It suggested that raising farm income could be accomplished through direct farm subsidies.

CONCLUSION

There is no single standard for judging efficiency of the decisionmaking process. In characterizing and qualitatively assessing Government decisions for food and agriculture, the following criteria can disclose insights:

- Were all relevant agencies and interests within the executive branch included? Were relevant private sector interest groups consulted or provided opportunity for input? Were consultations with congressional agriculture leadership needed?

- Were all relevant considerations explored, including political ones?

- Was there a free flow of information among all parties? Was the timing appropriate, giving sufficient leadtime to review and assess analysis? Was the analysis of a suitable breadth and quality?

Views of all major agencies, as well as disagreements among agencies, were exposed and made know to the President. Traditional agricultural organizations (farm groups and commodity interests) were also consulted. But, there is a little evidence that the congressional agricultural leadership (for example, House and Senate agriculture committee chairmen) was consulted. Should congressional views have been solicited? If so, to whom should that responsibility fall--the Secretary of Agriculture? Were consumer interests adequately represented in the decision process? There is also the question of how consumer interests were advocated internally within USDA and how individuals, such as President Carter's Consumer Affairs Adviser, might have participated.

Economic considerations were the principal focus for debating the 1978 wheat set-aside issues. Economic agruments included both domestic and international concerns, commodity prices, production, stocks, farm income, inflation risks, international wheat agreements, reduced trade barriers, world hunger and Federal budget exposure. The process used in arriving at the set-aside decision allowed short-and long-term impacts of objective (economic analysis) and subjective (political consequences) considerations to be raised and discussed. Adding a significant expansion in the size of the grain reserve to the decision to require a set-aside suggests both strong economic and political considerations entering into the decision process. However, the weights attached to various factors, such as farm income, inflation, or Government costs, are not clear.

One problem suggested by participants was the lack of lead time to review analyses. Another problem was the flow of material itself. For example while Treasury participants believed that the views of all major agencies were presented to the President, they also suggested a thorough interagency discussion of the merits of each agency's concerns was not possible, partly because of insufficient coordination and leadtime in preparing analyses and discussion papers. This seems to indicate that more coordination is needed to assure that the analyses are available for adequate review before meetings.

OMB participants also had reservations about the USDA analyses. They suggested that since commodity program decision dates are written into law and can be foreseen, staff analysis should be done beforehand so that ample review time is allowed. OMB relied heavily upon USDA analyses but requested additional information when staff members perceived gaps in the analysis.

The problem of coordination and flow of material may have been hampered because the policy evaluation and coordinating procedure of the Executive Office of the President was being reorganized during the summer of 1977. Formation of the Food and Agricultural Policy Working Group in September 1977 after the set-aside decision had been made may have helped reduce such problems. For example, OMB indicated "that the interagency committee on food and agricultural policy provides an efficient and effective means for surfacing issues, educating staff, and arriving at program recommendations for the Secretary and the President."

As agriculture's linkages to the national economy continue to expand via changes in trade and domestic monetary and fiscal policies, which not only affect the viability of farms but also the availability and cost of food and the terms of trade, the number and variety of participants in the policy process will expand. The need for data, analytical capability, and, for that matter, political analysis will grow. The Ford and Carter Administrations dealt with major agricultural policy decisions through the development of interagency working groups. A similar institutional organization will likely continue into future administrations, suggesting that food and agricultural policy decisions developed within the bounds established by legislative statute will not be left to the sole purview of agriculturalists.

APPENDIX

Chronology of Key Events

Date	Key events
December 1976	Wheat prices at $2.39 (lowest level since January 1973).
January 20, 1977	New administration inaugurated.
April 4, 1977	USDA announces a producer-held reserve program for food grains (wheat and rice)
May 16, 1977	House and Senate Agriculture Committees report food and agriculture bills from committee. These bills authorize the use of set-aside.
May 24, 1977	Senate passes new farm legislation (S. 275), contains set-aside authorization.
May 31, 1977	The 1976/77 wheat marketing year ends. Carry-over stocks are reported at 1,109 million bushels with June average farm price at $2.30.
July 1977	USDA initiates analysis of set-aside options.
July 12, 1977	July crop report. A wheat crop of 2,044 million bushels is indicated.
July 28, 1977	House passes H.R. 7171--contains set-aside authorization.
August 1, 1977	House-Senate conference committee convenes to reconcile differences between Senate and House bills (S. 275 and H.R. 7171).
August 5, 1977	Conference concludes but Congress recesses before voting. A draft of background material on the set-aside situation delivered to policy officials in USDA. (This was the first document produced by USDA analysts.) The policy options analyzed included: ° No set-aside. ° Wheat set-aside only--alternative levels of 20 and 25 percent examined.

Continued--

Date	Key events
	° Set-aside for both wheat and feed grains under the following combinations: Wheat / Feed Grains (Percent) 20 / 10 25 / 10 30 / 15 and 25 percent for wheat, sorghum, and barley and 10 percent for corn. (The background material also included a discussion of the "Impact of U.S. Set-Aside Decision on International Wheat Negotiations.")
August 16, 1977	First interagency meeting on the wheat set-aside issue; analysts from OMB, CEA, USDA, and DPS attended. CEA circulates a draft paper on supply-demand balance for grains to USDA, Treasury, OMB, and DPS.
August 17, 1977	USDA meets with agricultural organizations.
August 18, 1977	Second interagency meeting, this time with decision-makers from USDA, CEA, OMB, State, Treasury, and DPS. Agenda includes a world and domestic agricultural situation background briefing, and discussion focuses on three topics: ° What is the desired level of world and U.S. stocks in 1978-79? ° What should be the maximum level of price support for major commodities in 1978/79? ° What level of set-aside is desired for major crops in 1978/79? Note that the third topic broadened the issue beyond just wheat set-aside, indicating that a decision on one crop could not be made apart from other crops. The meeting focuses primarily on the inflation risk element. The impact on the international negotiations and how set-aside would be perceived by the international community are also discussed.

Continued--

Chronology of key events--Continued

Date	Key events
	The principal point of disagreement is the inflation risk (USDA and CEA disagree). The CEA disagreement centers on the methodological techniques used in assessing risk.
August 20, 1977	Howard W. Hjort chairs a meeting of DPS, CEA, OMB, and Treasury assistants. USDA is to prepare an informational memo for the President with DPS preparing a cover memo summarizing the views of all agencies.
August 22, 1977	USDA informational memorandum is transmitted to the President.
August 23, 1977	Meeting with the President. The focus is on inflation, but issues on international negotiations, farm income, and budget implications are also discussed. The President requests a formal decision memo. Participants at this meeting: President Carter Vice President Mondale Secretary Bergland, John White, Howard Hjort, and Dale Hathaway (USDA) Anthony Solomon (Treasury) Richard Cooper (State) Charles Schultze, William Nordhaus, and J.B. Penn (CEA) Bert Lance, Bowman Cutter (OMB) Ted Van Dyk (AID) Frank Moore (Chief of Congressional Liason for the White House) Stuart Eisenstat and Lynn Daft (DPS) Robert Strauss (Ambassador for Trade Negotiations)
August 25, 1977	Formal decision memo sent to the President.
August 26, 1977	President concludes review of decision memo, makes decision, and outlines certain points to be emphasized in the announcement of the decision.
August 29, 1977	Acting Secretary of Agriculture John White and Howard Hjort announce the decisions from the White House:

Continued--

Chronology of key events--Continued

Date	Key events
	° A comprehensive plan to place 30-35 million tons of food and feed grains in reserve prior to the beginning of the 1978/79 marketing years, including a proposal to create a special International Emergency Food Reserve of up to 6 million tons. ° The administration's intention to implement a 20-percent set-aside on 1978-crop wheat. ° An immediate increase in the loan rates for 1977-crop feed grains. The set-aside is predicated on new farm legislation as reported by the conference committee being passed by Congress and signed into law. The announcement also indicates that a 10-percent feed grain set-aside may be needed.
September 7, 1977	Senate passes Conference Report on Food and Agriculture Act of 1977.
September 16, 1977	House passes Conference Report on Food and Agriculture Act of 1977.
September 29, 1977	President signs Food and Agriculture Act of 1977 into law.
October 14, 1977	USDA calls for comments on 1978 wheat program proposals. Although after the fact, the procedure meets the intention of the law. The August 29 decision is explained as being "tentative" and the administration's intention if the 1977 "farm bill," containing the necessary authority for set-aside, is enacted. The decision could be changed at any time if necessiated by economic or other conditions. USDA notes the August 29 announcement and in essence opens up a 30-day period for public comments. The issues are: ° A proposal to announce the program allocation factor after the August 1978 Crop Production Report. ° Whether there should be a set-aside requirement and, if so, the extent of such a requirement.

Continued--

Date	Key events
	° Whether there should be provisions for land diversion payments and, if so, the extent of such diversion and payment. ° Whether there should be a limitation on planted acreage and, if so, the extent of such limitation.
November 15, 1977	A 10-percent set-aside for corn, sorghum, and barley acreage is announced.
December 1, 1977	Final rules for set-aside and normal crop acreage provisions for the 1978 program allowing grazing on set-aside acreage for 6 months of the year are announced.
February 8, 1978	Farmer signup in the 1978 wheat, feed grain, and cotton programs will be March 1, through May 1.
March 29, 1978	A special haying and grazing program for wheat is announced. Land diversion for feed grains and cotton is announced.
May 15, 1978	Acting Secretary Carol Tucker Foreman raises the target price for wheat from $3.00 to $3.40 under authority granted in the Emergency Agricultural Act of 1978. The higher target price has the effect of encouraging additional participation in the 1978 wheat program. Set-aside signup is extended from May 15 to May 30.
May 31, 1978	Farmer signup in the 1978 wheat, feed grain, and cotton program ends.

Authority for Participating in the Food and Agriculture Policy Decisionmaking Process

Department of Agriculture (USDA)

Legislative requirements and authorities of the Secretary of Agriculture to implement and administer price support and other loan, purchase, payment, and production adjustment programs for wheat are contained in the Agricultural Act of 1949 (as amended), the Agricultural Act of 1970 (as amended), and the Food and Agriculture Act of 1977 (pending at the time the 1978 wheat set-aside decision was announced). The Secretary of Agriculture and the Commodity Credit Corporation (CCC), which was established as an agency of the United States under a permanent Federal charter on June 29, 1948, are primarily responsible for commodity programs. In carrying out its principal operations, the CCC utilizes the personnel and facilities of the Agricultural Stabilization and Conversation Service.

Council of Economic Advisers (CEA)

The Council of Economic Advisors was established in the Executive Office of the President by the Employment Act of 1946. Responsibilities of the CEA include: analyzing the national economy and its various segments, advising the President on economic developments, appraising the economic programs and policies of the Federal Government, and recommending to the President policies for economic growth and stability.

Office of Management and Budget (OMB)

The Office of Management and Budget was established in the Executive Office of the President by executive order on July 1, 1970. Responsibilities of OMB include: assisting the President in his program to develop and maintain effective Government by reviewing the organization structure and management procedures of the executive branch, assisting in developing efficient coordinating mechanisms to implement Government activities, assisting the President in the preparation of the budget and the formulation of the fiscal program of the Government, and supervising and controlling the administration of the budget.

Department of the Treasury

A basic function of the Department of Treasury is to formulate and recommend financial, tax, and fiscal policies. The Secretary of the Treasury has responsibility, as a policy advisor to the President, for formulating and recommending doemstic and international financial and tax policy, participating in the formulation of broad fiscal policies that have general significant for the economy, and managing the public debt.

Department of State

Department of State has the responsibility for executing the foreign policy. The Department determines and analyzes facts relating to overseas interests of the United States, makes recommendations on policy and future action, and takes necessary steps to carry out established policy. Within the State Department, the Bureau of Economic and Business Affairs has the delegated responsibility for formulating and implementing policy regarding foreign economic matters and trade promotion and business services of an international nature and for coordinating regional economic policy with other bureaus.

Appendix table 1--World and U.S. consumption, beginning stocks, and exports of wheat, 1968-78

	World				United States					
Marketing year	Consumption	Beginning stocks	Total exports	Stocks as a percentage of consumption	Consumption	Beginning stocks	Exports	Percentage of world exports	Percentage of world stocks	Season average price
	---Million metric tons---			---Percent---	---Million metric tons---			---Percent---		Dollars
1968/69	304.2	88.4	49.8	29.0	1/ 20.5	1/ 17.1	1/ 14.4	28.9	19.3	1.24
1969/70	326.7	112.4	55.2	34.4	1/ 21.1	1/ 24.6	1/ 16.1	29.2	21.9	1.25
1970/71	338.7	95.4	56.4	28.2	1/ 21.4	1/ 26.8	1/ 19.8	35.1	28.1	1.33
1971/72	341.8	72.0	55.6	21.1	23.1	22.4	16.6	29.9	40.3	1.34
1972/73	361.4	79.1	70.8	21.9	21.7	26.8	30.8	43.5	33.9	1.76
1973/74	364.0	61.1	72.6	16.8	20.5	16.2	33.1	45.6	26.5	3.95
1974/75	363.4	69.3	68.0	19.1	18.3	9.3	27.7	40.0	13.4	4.09
1975/76	353.2	62.6	73.7	17.7	19.6	11.8	31.9	43.3	18.8	3.56
1976/77	379.9	59.4	70.0	15.6	20.4	18.1	25.9	37.0	30.5	2.73
1977/78	397.1	94.6	74.3	23.8	22.9	30.3	30.6	41.2	32.0	2.31

1/ FAS data base, supply distribution tables for U.S. data for years prior top 1971/72.

2/ Source: U.S. Department of Agriculture, Foreign Agricultural Service, Foreign Agriculture Circular, F6-14-78, August 15, 1978.

Appendix table 2--World and U.S. consumption, beginning stocks, and exports of coarse grains, 1968-79

Marketing year	World				United States					
	Consumption	Beginning stocks	Total exports	Stocks as a percentage of consumption	Consumption	Beginning stocks	Exports	Percentage of world exports	Percentage of world stocks	Season average price
	---Million metric tons---			--Percent--	---Million metric tons---			---Percent---		Doll
1963/69	547.8	86.1	39.7	15.7	1/ 137.7	1/ 45.6	1/ 16.3	41.1	53.0	1.08
1969/70	575.4	90.1	47.1	15.7	1/ 144.2	1/ 47.2	1/ 19.0	40.3	52.4	1.16
1970/71	592.6	90.8	53.4	15.3	1/ 141.8	1/ 46.1	1/ 18.6	34.8	50.8	1.33
1971/72	614.2	74.2	55.5	12.1	150.9	32.2	24.5	44.1	43.4	1.08
1972/73	626.9	87.6	69.0	14.0	157.9	46.6	39.4	57.1	53.2	1.57
1973/74	672.2	69.8	80.9	10.4	155.8	31.7	41.1	50.8	45.2	2.55
1974/75	633.6	65.4	69.5	10.3	121.9	21.8	35.9	51.7	33.3	3.02
1975/76	646.2	59.8	87.8	9.3	133.6	15.5	50.0	56.9	25.9	2.54
1976/77	684.1	58.1	88.5	8.5	130.9	17.3	50.6	57.2	29.8	2.15
1977/78	687.2	75.7	94.0	11.0	136.9	30.0	54.1	57.6	39.6	2.03

1/ FAS data base, supply distribution tables for U.S. data for years prior to 1971/72.

Source: U.S. Department of Agriculture, Foreign Agricultural Service, Foreign Agriculture Circular, F6-1478, August 15, 1978.

Appendix table 3--Economic indicators related to agriculture, 1967-79

Year	Value of agricultural exports	Value of agricultural imports	Index of prices received by farmers	Index of prices paid by farmers	Net income of farm operators	Consumer Price Index: All items	Consumer Price Index: Food
	---Million dollars---		--(1967 = 100)--		Million dollars	--(1967 = 100)--	
1967	6,771	4,453	100	100	12,339	100.0	100.0
1968	6,311	4,656	102	102	12,322	104.2	103.6
1969	5,741	4,931	107	107	14,293	109.8	108.9
1970	6,721	5,592	110	112	14,151	116.3	114.9
1971	7,758	5,828	113	117	14,633	121.3	118.4
1972	8,047	6,048	125	126	18,665	125.3	123.5
1973	12,902	7,324	179	149	33,349	133.1	141.4
1974	21,293	9,549	192	170	26,130	147.7	161.7
1975	21,578	9,579	185	187	24,258	161.2	175.4
1976	22,147	10,107	186	199	20,014	170.5	180.8

Source: U.S. Department of Agriculture, Agricultural Statistics 1977.

Appendix table 4--Wheat and feed grain acreage and ending stocks 1/

	Wheat		Feed grains	
	Acreage	Stocks	Acreage	Stocks
	Million acres	Billion bushels	Million acres	Million metric tons
1977/78 forecast	74.4	1.3	129.0	50.6
1978/79				
no Set-aside	77.0	1.6	129.0	62.9
Set-aside options:				
1. Wheat only:				
a. 20 percent	64.0	1.4	131.5	63.8
b. 25 percent	61.5	1.4	132.0	63.9
2. Wheat plus feed grains:				
a. 20 percent wheat: 10 percent feed grains	65.0	1.5	120.5	53.8
b. 25 percent wheat: 10 percent feed grains	63.0	1.4	121.0	54.2
c. 30 percent wheat: 15 percent feed grains	62.0	1.4	116.0	48.9
d. 25 percent wheat: sorghum, and barley; 10 percent corn	64.0	1.4	116.0	51.0

1/ As shown by August 5 analysis.